Cash Flow Management

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Posted Friday, October 7, 2022

Before we get into the mechanics of what WCG does, let's ask a simple question- When does a business need cash flow management? There are four primary reasons-

During periods of high-growth and expansion, cash is often spent long before cash is received from business operations. Growing inventory. Hiring employees. Opening a new office. Adding a product or service line.

Seasonal or multi-year projects can stress cash flow. A landscaper might have general seasonal cash flow swings, but they might also depend on the weather including snowfall for snow removal services. A multi-year project with retainers, milestones, deliverables and projection completion payments might create lumpy cash outlays. These are just quick examples.

Some businesses and their leadership might not have the resources to manage cash flow. Beyond the accounting knowledge or acumen, business owners might not have the inclination to focus on cash flow. In other words, they are widget makers and salespeople, and don't want to take time off to dwell on business administration.

The Golden rule might come into play. Huh? The person with the gold makes the rules, right? Therefore, at times an investor or a lender might require a business to have a formal cash flow management system.

Cash Flow Projections

WCG's cash flow management services are customized for each business based on complexity and analysis frequency (yeah, the "it depends" answer, sorry).

Initially, we conduct a business assessment to understand overall operations. This includes reviewing the business's cash conversion cycle which is the time a dollar is used in production or sales, before it is converted into cash. Accounts receivables and receiving payments from customers are also reviewed including seasonality and "lumpy or bumpy" revenue streams.

Next, we analyze estimated payroll costs and other expenses. Additionally, we consider future capital expenditures (capex), and how that will be paid either with cash, debt, leasing or some combination. We also analyze existing debt obligations, return of capital to investors and shareholder (owner) distributions.

This analysis is charted into monthly, quarterly or annual segments, and usually forecast for 3-5 years depending on the maturity (and predictability) of the business. This whole thing is considered your cash flow projection and is a common request of lenders and investors.

Working capital is then calculated. How much cash do you need on hand at any given time to pay for expenses and cash outflows while waiting for cash inflows? This is an essential analysis since it allows for two things-

1. freedom to safely operate and be whimsically flexible above this working capital number from a cash perspective, and
2. the trigger for countermeasures such as borrowing on lines of credit, slow-paying vendors and suppliers, selling assets and cutting discretionary expenses (more on this in a bit).

Cash Risk Assessment

A risk analysis can be performed to provide recommendations and methodologies to smooth cash flows. This might include assisting you in securing lines of credit (before you need cash), reviewing your invoicing and accounts receivable habits, and negotiating alternative payment terms with your vendors and suppliers.

> **Sidebar:** When WCG prepares business valuations, we calculate the risk of future cash flow continuing, and use that to determine a discount or capitalization rate. This in turn provides a value to a future buyer since most business acquisitions are about buying future cash flow.

As a part of the risk assessment, we review cash protection in terms of safeguarding access to cash such as two-factor authentication, bank account splitting between certain business activities (reducing the bomb blast radius), segregation of duties (an accounting classic) and other considerations.

Cash Flow Management Fees

Cash flow management is typically included in our customized **Aspen Business Advisory Service** plan. Our fees are split into three parts-

Initial Feasibility Assessment	$600
Annual Cash Flow Projections	$1,500 to $2,500 (typically), depending on complexity
Review, Updates, Implementations	Varies, more discussion required (see below)

Frankly, these are jumping off points. Cash flow management and analysis is very specialized, but the fees above should give you a good idea of the budget (and we'd like to think the value received as well).

Review, Updates, Implementation

The review, update and implementation segment of WCG's cash flow management services varies wildly, and is customized to your unique needs. Some things to consider-

Do you want a review of variance between the cash flow projection and actual cash flow? How often?

When should cash flow projections be updated? Stabilized or mature businesses are usually updated annually, but high-growth businesses including those with a lot of cash volatility might need more frequent updates.

Should we stress-test the cash flow projection? What happens if cash inflow decreases by 10% or delayed by 45 days? Are there contingency expenses, the "oh craps" of business life, that need to be accounted for? Should we assign probability and add to the stress-test?

What do you need specific to the cash risk assessment? How much assistance do you require in securing new lines of credit or presenting your business to investors?

Are we your fractional CFO?

Cash Flow Management Consultation

Cash flow management is not required for all businesses, but when it is needed, cash flow management is essential. Please let us know how we can help.JTVCd2NnLWNvbnRhY3QtdXMlNUQ=**WCG CPAs & Advisors** is a full service consultation and tax preparation firm, and we look forward to working with you!